

REPORT OF THE AUDITOR-GENERAL TO PROVINCIAL LEGISLATURE AND THE COUNCIL ON GREATER GIYANI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Greater Giyani Municipality, set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act, 2011 (Act No. 6 of 2011) (DORA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Trade and other payables

4. I was unable to obtain sufficient appropriate audit evidence for the restatement in the corresponding figures of trade and other payables. As described in notes 38, 39, 40 and 42 to the financial statements, the restatement of R19 969 514 was made in order to rectify prior year misstatements. I was unable to confirm the restatements by alternative means. Consequently, I was unable to determine whether any adjustments to the trade and other payables in the financial statements were necessary.
5. Included in the trade and other payables balance as disclosed in note 9 to the financial statements is an amount of R33 180 246 (2011: R31 498 271) owed to the district municipality. The municipality could not provide me with sufficient appropriate audit evidence to support this amount. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine whether any adjustments to the trade and other payables in the financial statements were necessary.
6. There was no adequate system of internal control over the billing of water services resulting in incomplete or inaccurate billing. The municipality's records did not permit the application of alternative audit procedures to satisfy myself as to the accuracy and completeness of water revenue transferred to the inter-municipal account with Mopani District Municipality. Consequently, I was unable to determine whether any adjustments to the trade and other payables in the financial statements were necessary.

Property, Plant and Equipment

7. I was unable to obtain sufficient appropriate audit evidence for the restatement in the corresponding figure of PPE. As described in note 36 to the financial statements, the PPE balance has been restated by R2 908 529 to rectify a prior year misstatement. I was unable to confirm the restatement by alternative means. Consequently I was unable to determine whether any adjustments to the PPE corresponding figure were necessary.
8. The property, plant and equipment (PPE) balance of R187 861 865 (2011: R177 802 891), as disclosed in note 8 to the financial statements does not agree to the underlying accounting records and financial statements. The following material misstatements were identified
 - Unreconciled difference of R1 521 042 (2011: R14 536 125) between the underlying accounting records and the balance of PPE as disclosed in the financial statements.
 - The reconciliation of work in progress (WIP) per note 8 is inconsistent with other disclosures within the PPE. An unreconciled difference of R9 435 255 was identified between roads infrastructure capitalised in the underlying records and the asset transferred from WIP. Further, an amount of R2 942 247 transferred from WIP – industrial buildings was not capitalised in the accounting records.
 - Unreconciled difference of R9 406 002 between the prior year closing WIP of R11 438 664 and the current year opening balance of R20 844 666 as disclosed in note 8 to the financial statements.

The municipality imposed a limitation on the scope of my work, as I was not given valid explanations and supporting documentation for the aforesaid differences. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine whether any adjustments relating to the PPE balance in the financial statements was necessary.

Irregular expenditure

9. No system was in place for the identification and recognition of irregular expenditure and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all irregular expenditure was properly recorded. Payments amounting to R261 338 were made in contravention of the supply chain management regulations. The amount was not included in irregular expenditure, disclosed in note 31 to the financial statements. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure as disclosed in note 31 to the financial statements amounting to R4 617 006.

Fruitless and wasteful expenditure

10. Section 125(2)(d) of the MFMA, requires that the notes to the annual financial statements of a municipality must disclose the particulars of any material fruitless and wasteful expenditure. Fruitless and wasteful expenditure amounting to R75 866 (2011: R966 201) due to a duplicate payment and interest and penalties on late payments has not been included in the fruitless and wasteful expenditure as disclosed per note 32 to the financial statements. Consequently I was unable to obtain sufficient appropriate evidence to confirm the completeness of the fruitless and wasteful expenditure of R151 598 (2011:R0) disclosed in note 32 to the financial statements. The total amount by which fruitless and wasteful expenditure is understated could not be quantified.

Cash flow statement

11. Presentation of a cash flow statement, summarising the municipality's operating, investing and financing activities, is required by the Standard of Generally Recognised Accounting Practice, GRAP 2, *Cash flow statements*. Included in the cash flow statement is an amount of R66 803 457 under cash flows from operating activities and an amount of R28 790 990 from investing activities for which I identified differences between the cash flow statement and figures disclosed in the statement of financial position and performance. Consequently, I did not obtain sufficient

appropriate audit evidence to satisfy myself as to the accuracy, presentation and completeness of the amounts included in the cash flow statement.

Cash and cash equivalents

12. During 2011 I was unable to obtain sufficient appropriate audit evidence about reconciling items amounting to R1 798 562. The municipality could not provide an explanation or supporting documentation for the reconciling items. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance on the cash and cash equivalents disclosed in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
13. The municipality did not implement adequate controls to ensure that bank reconciliations are prepared and reviewed adequately to ensure that only valid reconciling items appear on bank reconciliation statements. The following misstatements were identified in the cash and cash equivalent balance disclosed in the financial statements:
- The municipality could not provide sufficient appropriate audit evidence to support old reconciling items totalling R702 947 on the bank reconciliation statement.
 - Further, included in the cash and cash equivalent balance is an amount of R991 837 pertaining to a bank account which has been closed since July 2011. The municipality could not provide sufficient explanation for this amount.

Consequently, I could not satisfy myself as to the existence, completeness, valuation and rights pertaining to cash and cash equivalents amounting to R61 706 711 (2011: R23 694 244).

Inventory

14. There was no system of control over inventory records on which I could rely for the purpose of my audit to obtain reasonable assurance that all inventory additions, issues, losses and write offs were properly recorded. There were no satisfactory audit procedures that I could perform to obtain reasonable assurance that inventory was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, completeness, allocation and existence of inventory of R312 345 (2011: R678 175) disclosed in financial statements.

Receivables

15. I was unable to obtain sufficient appropriate audit evidence for the restatement in the corresponding figure of consumer receivables. As described in note 5 to the financial statements, the consumer receivable balance has been restated by R1 595 300 to rectify a prior year misstatement. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustments to the consumer debtors corresponding figure were necessary.
16. Included in consumer receivables as disclosed in note 5 to the financial statements is other unclassified receivables amounting to R43 788 178 (2011: R44 109 816) for which no supporting schedules were provided to me for audit. There is also no accurate records system maintained by the municipality for other unclassified debtors. The municipality's records did not permit the application of alternate audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation, existence, and rights of consumer receivables amounting to R87 665 767 (2011: R61 956 901).
17. International Accounting Standards 39, *Financial Instruments, recognition and measurement*, requires an entity to assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets are impaired. The municipality did not assess whether there was objective evidence that receivables are impaired. The municipality provided for impairment on all debtors outstanding for more than 12 months. Further, the provision for doubtful debts includes debts owed by government departments and public entities.

The municipality did not take into account different categories of debtors for the purposes of impairment.

18. The municipality has long outstanding receivables, the recovery of which is doubtful, based on the past payment history of these debtors. 89% of the outstanding receivable balance at year end has been provided for as doubtful, however, none of these outstanding debts have been written off or impaired. Due to the lack of control where outstanding debts are not followed up, including government and business debts and the non disclosure of age analysis per category of debtors in terms of SA Standards of GRAP 1, *Presentation of Financial Statements*, I cannot reliably determine the accuracy of the provision of bad debts and the valuation of receivables of R87 665 767 (2011: R61 956 901) disclosed in the financial statements.
19. Trade and other receivables as disclosed in note 4 to the financial statements includes an amount due of R3 427 511 (2011: R3 427 511) from the sale of stands. The amount has been outstanding since 2009 and I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the recoverability of this amount. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, existence, and rights of trade and other receivables amounting to R3 475 975 (2011: R3 475 975).
20. The unclassified receivables disclosed per ageing in note 5 to the financial statements amounting to R8 198 987 does not agree to the total unclassified debtors per service category as disclosed at R43 788 178 within the same note number 5. The municipality could not provide an explanation or supporting documentation for the difference of R35 589 191. I was unable to confirm the amount stated in the financial statements by alternative means. Consequently I was unable to determine whether any adjustment relating to unclassified receivables in the financial statements was necessary.

Revenue

21. There was no system of control over property rates revenue on which I could rely for the purpose of my audit, and there were no satisfactory procedures that I could perform to obtain reasonable assurance that all property rate revenue was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and accuracy of property rates revenue recognised in the financial statements of R25 652 874 (2010: R12 918 865).

Value Added Tax (VAT)

22. The municipality entered into an agency agreement with its district municipality for the provision of water. As the agent, the municipality has contrary to the VAT act, accounted for VAT on the water transactions. The municipality also claimed VAT on non qualifying expenditure and also claimed the incorrect VAT amounts.
23. I was unable to obtain sufficient appropriate audit evidence for the restatement in the corresponding figure of VAT receivable. As described in note 41 to the financial statements, the restatement of R 19 325 918 was made to rectify a prior year misstatement. . I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustments to the VAT corresponding figure were necessary.

Consequently no sufficient and appropriate audit evidence could be obtained to confirm the existence, valuation, completeness and obligations of the VAT payable balance of R4 059 728 (2011: 4 547 931)

Accumulated surplus

24. The opening balance of accumulated surplus for the earliest comparative year has not been correctly presented in the statement of changes in net assets. The correct amount as per final prior year financial statements is R161 395 518 but management has split the amount between an opening balance of R147 552 480 and a line item called accumulated surplus of R13 843 038.

25. During 2010 I was unable to obtain sufficient appropriate audit evidence about employee related costs reflected as R14 991 760. I was unable to confirm the costs by alternative means. Consequently I was unable to determine whether any adjustments to this amount and retained earnings were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
26. I was unable to obtain sufficient appropriate audit evidence for the restatement in the corresponding figure of accumulated surplus as disclosed in note 43 to the financial statements. The opening balance of accumulated surplus for the earliest period presented has been restated by R1 493 303. I was unable to confirm the restatement by alternative means. I was unable to determine whether the adjustment to the opening accumulated surplus corresponding figures were necessary.
27. I was unable to obtain sufficient appropriate audit evidence for the restatement in the corresponding figure of revenue and expenditure items. The total revenue and expenditure as disclosed in the statement of financial performance has been restated by R1 204 693 and R30 039 574 respectively. I was unable to confirm the restatement by alternative means. I was unable to determine whether any adjustments to the income and expenditure and retained earnings corresponding figures were necessary.

Consequently I was unable to obtain sufficient appropriate evidence to satisfy myself as to the completeness, valuation and allocation of the accumulated surplus balance of R183 562 151 (2011: 135 015 602)

Presentation and disclosure of financial statements

28. SA Standards of GRAP 1, *Presentation of financial statements*, paragraph .19 (b) and (c) requires that financial statements should provide information, including accounting policies, presented in a manner which is relevant, reliable, comparable and understandable. In addition, additional disclosures should be made when compliance with the specific requirements in Standards of GRAP are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. The following non compliances with regard to GRAP 1 were identified which were inadequate for the fair presentation of the financial statements:

- Accounting policy note 1.4 states that infrastructure assets are carried at the revalued amount, this is incorrect as these assets are and have since recognition been carried on the cost model.
- The distinction between exchange and non exchange transactions was not made for expenditure, receivables, payables and accounting policies
- Budget information as required by GRAP 1 has been disclosed in Appendix E1 to the financial statements, no reference has been made of this in a note to the financial statements as required by GRAP.
- Various non compliances with regard to disclosure notes to the financial statements in terms of GRAP 1 requirements.
- The note to the financial statements with regard to PPE has not distinguished between land and buildings as required by GRAP 1.
- International Public Sector Accounting Standard, IPSAS 20, *Related party disclosures*, requires related parties and their nature of relationship to be disclosed in the financial statements, no evidence of this has been disclosed.

- The pension fund amount of R9 328 289, as disclosed in note 33 to the financial statements, does not agree to the balance of R10 068 015 per note 21 to the financial statements. The municipality could not explain the difference of R739 726.
- National Treasury withheld an amount of R701 000 from the municipality's equitable share allocation. The reasons were given to the municipality per letter dated 16/03/2012. These reasons have not been disclosed in the annual financial statements as required by the MFMA section 123(1)(f).

Leases

29. SA Standards of GRAP 13, *Leases*, requires the following disclosures to be made in the notes to the financial statements. These have not been disclosed in terms of SA Standards of GRAP 13:

- the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
- not later than one year;
- later than one year and not later than five years; and
- later than five years;
- later than five years;

Additional matter

30. I draw attention to the matter below. My opinion is not modified in respect of this matter

Unaudited supplementary schedules

31. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereof.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

32. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

33. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages x to x of the annual report.
34. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information* (FMPPI)

The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

35. The material findings are as follows:

Usefulness of information

Consistency

Reported targets not consistent with planned targets

36. The MSA, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 72% of the reported targets are not consistent with the targets as per the approved service delivery agreement. This was due to a lack of review of and monitoring over the accuracy and completeness of reporting documents by management.

Reported indicators not consistent with planned indicators

37. The MSA, section 41(c) requires that the service delivery agreement should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 26% of the reported indicators are not consistent with the indicators as per the approved service delivery agreement. This was due to a lack of review of and monitoring over the completeness of reporting documents by management.

Measurability

Performance Indicators not well defined

38. The National Treasury FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 59% of the indicators relevant to infrastructure development and basic services and financial viability were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to a lack of review of and monitoring over the completeness of reporting documents by management.

Performance Indicators not verifiable

39. The National Treasury FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 59% of the indicators relevant to infrastructure development and basic services and financial viability were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

Performance targets not specific

40. The National Treasury FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 64% of the targets relevant to infrastructure development and basic services and financial viability were not specific in clearly identifying the nature and the required level of performance. This was due to a lack of review of and monitoring over the completeness of reporting documents by management.

Performance targets not measurable

41. The National Treasury FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 64% of the targets relevant to infrastructure development and basic services and financial viability. This was due to a lack of review of and monitoring over the completeness of reporting documents by management.

Performance targets not time bound

42. The National Treasury FMPPI requires that the time period or deadline for delivery be specified. A total of 77% of the targets relevant to infrastructure development and basic services and financial viability were not time bound in specifying a time period or deadline for delivery. This was due to a lack of review of and monitoring over the completeness of reporting documents by management.

Presentation

Measures taken to improve performance not disclosed

43. Improvement measures in the annual performance report for a total of 37% of the planned targets not achieved were not disclosed as required by section 46 of the MSA. This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Reliability of information

Reported performance not valid

44. The National Treasury FMPPI requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 32% of financial viability. This was due to the institution's records not permitting the application of alternative audit procedures.

Reported performance not accurate

45. The National Treasury FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to 32% of financial viability. This was due to the institution's records not permitting the application of alternative audit procedures.

Reported performance not complete

46. The National Treasury FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to 32% of financial viability. This was due to the institution's records not permitting the application of alternative audit procedures.

Additional matter

I draw attention to the matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

47. Of the total number of 82 planned targets, only 49 targets were achieved during the year under review. This represents 40% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process

Compliance with laws and regulations

48. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements, performance and annual report

49. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified

by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a disclaimer of opinion.

50. The annual performance report for the year under review does not include a comparison with the previous financial year and measures taken to improve performance, as required by section 46(1)(c) of the MSA.

Procurement and contract management

51. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).

Expenditure management

52. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the Municipal Finance Management Act.
53. The accounting officer did not take effective steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.
54. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place as required by section 65(2)(a) of the MFMA.

Human Resource Management and compensation

55. The competencies of financial and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels regulation 13.

Revenue management

56. An adequate management, accounting and information system was not in place which accounted for debtors, as required by section 64(2)(e) of the MFMA.

Liability management

57. A management, accounting and information system which adequately accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
58. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Internal Audit

59. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to accounting procedures and practices, risk and risk management, loss control.
60. The internal audit unit did not submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Audit committee

61. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with the MFMA, DoRA, as required by section 166(2)(b) of the MFMA.

INTERNAL CONTROL

62. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of

opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

63. Management did not always exercise an appropriate level of oversight responsibility regarding financial and performance reporting, compliance and related internal controls. Action plans were developed in the prior year, however, the implementation of the recommendations from internal and external audit were not addressed, hence the recurrence of findings identified in the prior year with regard to asset management, revenue, receivables, payables and unresolved prior year issues.

Financial and performance management

64. A lack of technical knowledge in the finance section with regard to new accounting standards and legislation in the municipality to adequately perform their functions, such as regular confirmation, existence and reconciliation of assets, water related transactions, property rates revenue, bank reconciliations, completeness of fruitless and irregular expenditure and implementing accounting guidelines and standards together with adherence to the requirements of laws and regulations resulted in the opinion received on the submitted financial statements and reported performance against predetermined objectives.

65. There is no monitoring of, and controls within the performance management process to ensure performance against predetermined objectives are useful and reliable.

Governance

66. Management ineffectiveness in implementing recommendations from internal and external audit did not enable the audit committee to promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor-General
Polokwane

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence